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The Alaska Aerospace Development Corporation owns and operates the Kodiak Launch Complex (KLC), a state-of-the-art spaceport on Kodiak Island. The KLC offers unobstructed flight paths away from populated areas and its latitude makes the facility ideal for launching satellites into polar orbits, and sub-orbital payloads for testing, research and development.

The AADC
mission is
to promote
aerospace-related
economic growth
and strengthen
Alaskan
Technological
infrastructure.

Cover photo: The flight of the IFT-13C test rocket is traced through the night skies over the KLC. This time-lapse photograph and many others in this annual report are the work of Diana Helgesen of Sandia National Laboratories.

Above photo: IFT-13C test rocket launch. Photo courtesy of Sandia National Laboratories



Letter from the Chairman



To the Governor, Legislators and Alaskans:

Alaskans often speak of the importance of economic diversity. Thirteen years ago the Alaska Aerospace Development Corporation developed the Kodiak Launch Complex to be a new industry for Alaska based upon knowledge and technology. Today, we are realizing our potential. The KLC is an outstanding facility at the leading edge of technological capability.

This year we have continued to fulfill the AADC mission. Our seventh launch took place in December for our anchor tenant, the U.S. Missile Defense Agency, which has contracted with the AADC to provide launch services through 2008.

In addition to jobs and the attraction of significant dollars into the Kodiak and Alaskan economies, the AADC has provided the leverages for paving an important access road and is working to bring Kodiak world class fiber optic cable connections. The value of these spin-off advantages is hard to measure, but impossible to ignore.

We have continued to stimulate interest in space careers and technology among Alaska's young people through a variety of educational programs. We are especially proud of our new scholarship program for Kodiak-based high school students who will be pursuing studies at the University of Alaska that qualify them for careers in the aerospace industry. We continue to offer internships during the summer months for college students and to support the Challenger Learning Center in Kenai—a place where Alaska's youth participate in hands-on learning about space and technology.

I would like to thank Alaska's legislators for the wisdom and vision that created the AADC. Thirteen years ago a spaceport in Alaska was only a dream. Today we can report that we have delivered on our promise to help Alaska diversify from dependence on the export of resources, to a state that encourages our students to achieve their higher education goals and to apply their knowledge to exciting careers that benefit both Alaska and our Nation.

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Mark Hamilton, Chairman,
AADC Board of Directors

Sincerely,

Mark Hamilton

Chairman, AADC Board of Directors

Letter from the President

Dear Governor Murkowski, Legislators, and the People of Alaska:

The Alaska Aerospace Development Corporation is pleased to present our 2004 Annual Report.

2004 has been a year of achievement for the AADC. Vigorous activity at the KLC providing service and support to the U.S. Missile Defense Agency's testing program, and continual improvements through construction projects and facility enhancements, has resulted in economic benefits to Kodiak through jobs, materials and services, tourism and hospitality, and construction. This year's work culminated in the successful launch of a target missile in December.

Working closely with the State of Alaska Department of Transportation, AADC continued to make improvements to road access between the town of Kodiak and the KLC.

We have promoted the planning for the delivery of fiber optic communication improvements that benefit not only the Kodiak Launch Complex but also the people of Kodiak, the Kenai Peninsula, and the rest of Alaska.

The first full year of our five-year contract with the U.S. Missile Defense Agency resulted in a successful launch of a target missile in December. Once again we have proven ourselves to be capable of providing all the services required to prepare for a launch. From state-of-the-art technology to ground equipment, in-door launch processing facilities, comfortable accommodations for our clients, and a responsive staff that will go the extra mile to support the needs of our customers, Kodiak Launch Complex is well prepared and capable.

Our proudest achievement of 2004 is in the area of education. This year the AADC Board of Directors voted to establish an Alaska Aerospace Scholarship Fund to provide up to ten scholarships, each in an amount of up to \$5000, for students in Kodiak's graduating senior class who plan to attend the University of Alaska. The scholarships can be used for any studies related to the operations at KLC or to the AADC. We are proud to be setting the foundation of future opportunities for Kodiak residents in the aerospace industry.

Finally, I am happy to report that the AADC is on solid ground financially. Through the support of our Congressional Delegation and Governor Frank Murkowski we have had the opportunity to demonstrate that Kodiak is the ideal location for launches into polar orbit and for the support of the missile defense system.

We are open for business and proud to be a part of one of the most exciting industries on earth.

Sincerely,

Pat Ladner President & CEO





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Pat Ladner,
President & CEO

AADC Highlights 2004

- Target Missile Launch-A U.S. Missile Defense Agency target missile was successfully launched from the KLC on December 14, 2004.
- Jobs for Kodiak and Alaska-AADC provided the equivalent of 61 full-time jobs in 2004: 45 in Kodiak and 16 in Anchorage.
- A Vigorous Construction Season-In 2004, AADC finished construction on a new instrumentation field, upgraded the weather monitoring system, and modified Launch Pad 1. In addition, Brechen Enterprises, Inc., of Kodiak, was awarded the contract to build, and began construction on, a new 19,000 square foot maintenance and storage facility.
- Range Safety & Telemetry System (RSTS) Passes Acceptance Testing—AADC took ownership of the RSTS following a two-year development period. Six Kodiak residents are now trained to operate and maintain the system.
- www.akaerospace.com-In October we launched our upgraded Web site. The site outlines our capabilities, safety procedures, current AADC and KLC events, and contains videotaped footage of several of our previous launches. In the month of December 2004 alone, the Web site was hit 264,000 times.



The first target missile, IFT-13C, launched from Kodiak to support an integrated flight test, was launched on December 14, 2004.

Educational support—The AADC Board of Directors voted to fund up to ten scholarships of up to \$5000 each for Kodiak-based high school seniors pursuing studies at the University of Alaska related to the operations of AADC or the KLC. College internships are also available. In 2004, two interns, Joe Smith and Paula Endicott, worked at the KLC under the direction

· Director, AADC Board of Directors

Dave Woodruff.

It was a beautiful

sunshiny morning when

I drove Pat Ladner out to

years ago. You could look

see forever. Pat was look-

ing for a location to build

Narrow Cape proved ideal

latitude, and no population.

And, Kodiak needed an

economic boost. 77

· Alaska Fresh Seafoods

a spaceport for Alaska.

for this purpose with a wide azimuth, northern

Narrow Cape about 15

out over the ocean and

of Ed Allen, Vice President of Launch Operations.

The Kodiak Launch Complex is all about safety







Left: Kodiak Island is an ideal location for polar launch operations, providing a wide launch azimuth and an unobstructed downrange flight path over the North Pacific ocean. Center: The Kodiak Launch Complex is prepared to serve customers from anywhere in the world who wish to take advantage of Kodiak's assets and KLC's leading- edge technology. Right: Our mobile range tracking system enables flight control to monitor space-bound vehicles for ground data processing, range safety display, and command destruct control. Because of its design and mobility, the system can be rapidly relocated and reconfigured for successful launches.

A Year In Review

Another productive year at the Alaska Aerospace Development Corporation has taken Alaska one step further on its mission to create opportunities for Alaskans through the development of space technology in Alaska. Activities in 2004 included the construction of facility improvements designed for the benefit of our customers, with increased storage capacity and improvements in communications, security, logistical support, and lodging.

Target Missile Launched

On December 14, 8:45 PM, Alaska Standard Time, a target missile was launched from the Kodiak Launch Complex. This launch marks the first time a target missile was launched from Kodiak to support an integrated flight test.

In the first full year of our five-year contract with the U.S. Missile Defense Agency, the KLC staff worked through the summer and fall to prepare for the launch, which went off flawlessly. Additional U.S. Missile Defense Agency launches are scheduled for 2005.



Preparing the rocket for transfer to the launch stool.

A new contract with the Kodiak Narrow Cape Lodge secured housing for our customers who often work through the night in order to meet challenging test schedules or to be in communication with other launch sites on the West Coast and in the Pacific Ocean.

Twenty years ago Alaska's participation in the aerospace industry was not much more than a dream. Today, aerospace has joined the fishing, tourism, and oil industries in providing terrific opportunities for Alaskans. The Alaska **Aerospace Development** Corporation's hard work as part of the testing program for the Missile Defense Agency will play a critical role in our Nation's security. You have tenaciously built a first-class facility of which we Alaskans, most of all the people of Kodiak, may be proud.

Senator Ted Stevens

The Kodiak Launch Complex is open for business







Left: Potential customers can find out what we have to offer on our Web site, www.akaerospace.com. Center: In May 2004, the AADC co-hosted the Small Payload Rideshare Conference in Anchorage and Kodiak. Right: Imprinted polo shirts, hats, and jackets are popular with customers who visit the range.

Talking about Kodiak

In May, the AADC co-hosted a Small Payload Rideshare Conference in Anchorage and Kodiak. The conference brought together 200 participants from industry, academia, nonprofit groups, and government agencies interested in pooling resources to launch clusters of small satellites during a single launch—"rideshare."

Through rideshare, the expense of a launch can be shared by several users, lowering the costs for each, thereby expanding the customer base for the KLC.

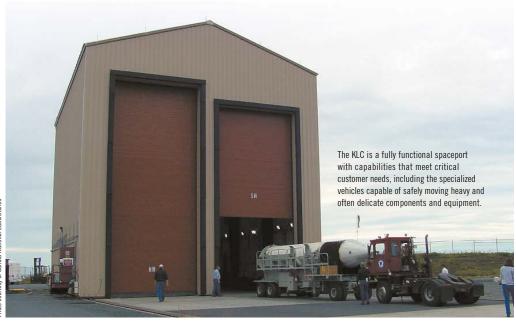
The rideshare conference was part of an initiative to increase knowledge about AADC and the KLC. This effort led to our improved Web site, and a new scholarship program for Kodiak high school seniors, part of a long range plan to grow our own qualified workforce.

Heavy Birds

Moving a rocket from one place to another requires specialized vehicles capable of safely moving heavy and often delicate components and equipment. The KLC is a fully functional spaceport with capabilities that meet critical customer needs. In 2004, we expanded our logistical capabilities through the acquisition of a 23-ton/103 foot reach boom truck, a 6-wheel-drive tractor, a 70,000 pound air-ride trailer, a 5-ton flatbed truck, a diesel yard tractor, two staff commuter vehicles, three range pickup trucks and two road graders. Our staff works well with our customers to efficiently provide the equipment and facilities required when preparing for a launch.

Customers compliment KLC staff on our ability to accomplish tasks often in the same day requested. We have a crew that is multi-talented and it enables us to do many jobs with a small number of people. We pride ourselves on working as a team and we never use the word 'can't'.

Randy Eisenhauer, KLC Facilities Manager



The Kodiak Launch Complex is people







Left: Operating the KLC "yard goat," Kodiak resident and KLC employee Claude Travis maneuvers the rocket into the Spacecraft Assembly and Transfer Facility (SCAT). Center: Sandia National Lab's missileers hand carry the pullaway data and power umbilical cable to the rocket. Right: Preparations for lifting the rocket onto the launch stool, inside the SCAT.

Safety First

Safety systems in place at the KLC are state-of-the-art. This year we completed the two-year development of our Range Safety and Telemetry System. It consists of two fully redundant mobile systems which provide range flight safety, command destruct, and telemetry receiving support with GPS. The primary purpose of the RSTS is to provide the range safety and telemetry functions necessary to track and verify a safe rocket flight within prescribed boundaries or safely terminate an errant rocket. We now have six Kodiak residents who are trained to operate and maintain the system.

Knowledge of current weather is critical when preparing for a launch. KLC clients no longer have to bring their own weather tracking equipment to the KLC thanks to the installation of a state-of-the-art weather station capable of tracking two weather balloons to over 100,000 feet. The system integrates field mill and ceilometer equipment and provides a visual display of status with a web link, while recording data for historical analysis.



"The work of the AADC is the epitome of what Alaskans are—hardy individuals whose commitment and vision, regardless of the odds, enables them to prevail and accomplish astounding things—like space launches from Narrow Cape on Kodiak Island."

Governor Frank Murkowski

New 5.4 meter antenna tracks the rocket while providing telemetry data to our Range Safety and Telemetry System.

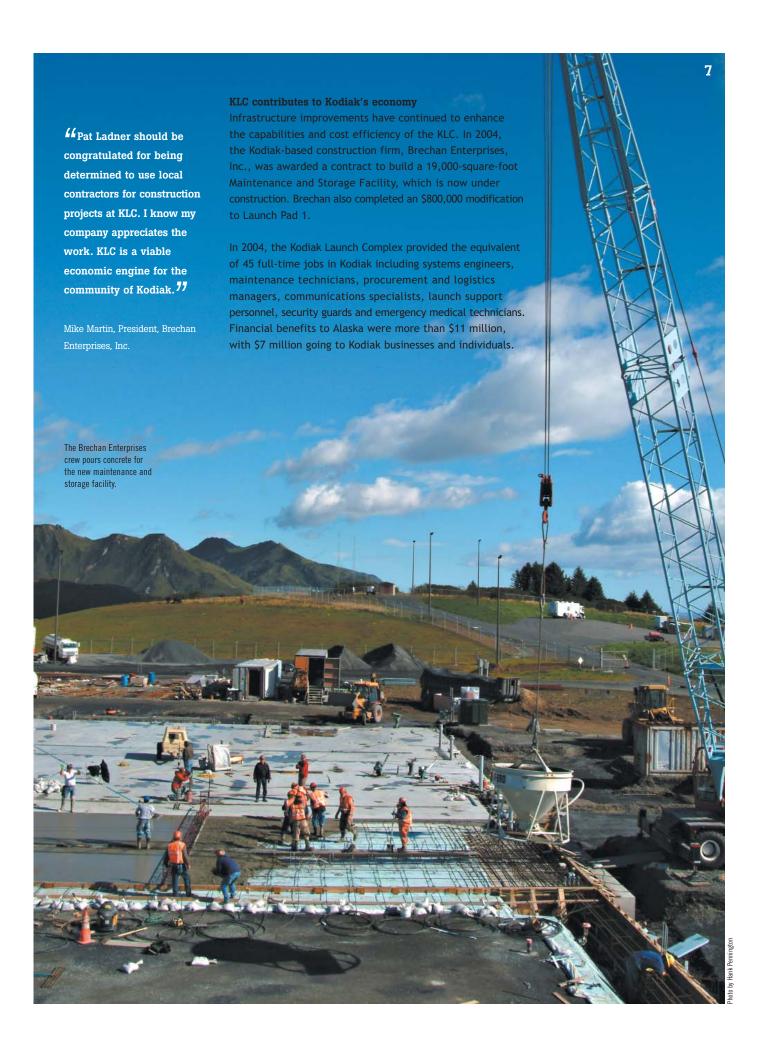
The Kodiak Launch Complex is full service







Left: Improvements to road access continue between the town of Kodiak and the KLC. The 50-mile access road is expected to be fully paved within three years. Center: Our Range Safety and Telemetry System provides the functions necessary to track and verify a safe rocket flight within prescribed boundaries, or safely terminate an errant rocket. Right: The KLC's meterological station provides critical information on current weather conditions.



Home away from home

The engineers and technicians who come to the KLC to prepare for a launch often work on-site for several months at a time. The AADC has found a way to provide them with a comfortable "home away from home" at Kodiak Narrow Cape Lodge, located just minutes away from the KLC's processing facilities. The AADC has contracted with the lodge owner to provide lodging and catering services to the Kodiak Launch Complex's clients.

The Kodiak Narrow Cape Lodge has 56 comfortable rooms and a spacious dining hall. From the lodge are beautiful ocean views on one side and mountains on the other. Whales, seals, elk, eagles, beaver, fox, buffalo and, upon occasion, Kodiak's famous brown bears have been spotted from the lodge.



We call it our life's work.

Eric Schindwolf,
Deputy Director Strike Systems,
Sandia National Laboratories

We like building rockets.

bring the rocket to the field

and fly it. Some may think

After years of working on

the project, it's an all or nothing experience. Some call it high-stakes poker.

of us as rocket junkies.

It is an incredible high to



KLC clients enjoy a "home away from home" at the Kodiak Narrow Cape Lodge located just minutes from the range.

Kodiak Launch Complex is our life's work







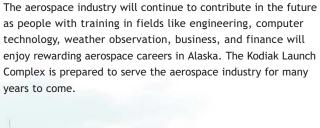
Left: Local residents and visitors enjoy the natural beauty of Fossil Beach at the KLC. Center: Photo opportunities of buffalo, elk, whales, eagles, and even brown bears are part of Kodiak life. Right: KLC customers are lodged just minutes away at the Kodiak Narrow Cape Lodge, known for its family-style cooking and beautiful views.

A Bright Future

The idea of a spaceport on the island of Kodiak was not on the minds of Alaskans back in 1991 when Alaska's legislators formed the Alaska Aerospace Development Corporation. Today, the AADC can report that the Kodiak Launch Complex and related services have already made a difference on Kodiak Island and throughout Alaska.

Kodiak Launch Complex is a place which greatly values personal capability and loyalty and is highly focused on achieving success.

Leif Selkregg,
President/CEO,
Rise Alaska, LLC





Support team with target rocket for Integrated Flight Test 13C

Kodiak Launch Complex is prepared







Left: Nighttime aircraft download of a rocket in an enclosed transporter at Kodiak airport. **Center:** Taking a break during the horizontal processing of the IFT-13C target rocket. **Right:** Elevating the rocket for transfer to the launch stool.

Financials

Return on State Investment (Cumulative)

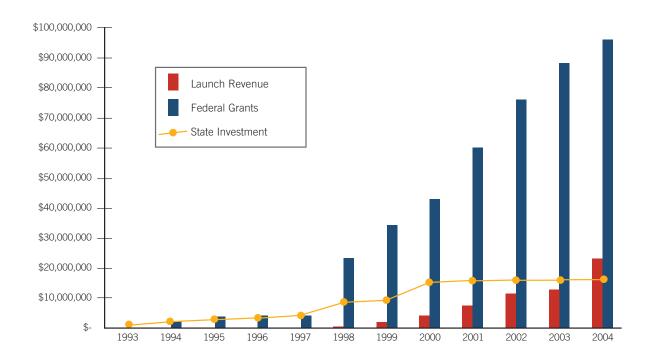




Table 1: Statement of Net Assets

Table 1. Statement of Net Assets						
	Current Year	Prior Year	Change	% Change		
Assets						
Capital assets	\$57,774,000	\$51,059,118	\$6,714,882	13.2%		
Current and other assets	36,072,975	32,817,703	3,255,272	9.9%		
Total assets	93,846,975	83,876,821	9,970,154	11.9%		
Liabilities						
Long-term liabilities	27,063,968	31,890,358	(4,826,390)	-15.1%		
Other liabilities	6,722,804	254,286	6,468,518	2543.8%		
Total Liabilities	33,786,772	32,144,644	1,642,128	5.1%		
Net assets:						
Invested in capital assets,						
net of related debt	57,774,000	51,059,118	6,714,882	13.2%		
Restricted	-	-	-	-		
Unrestricted	2,286,203	673,059	1,613,144	239.7%		
Total Net Assets	\$60,060,203	\$51,732,177	\$8,328,026	16.1%		

The total net assets increase of 16.1% is due to \$8,994,408 capitalized to the Kodiak Launch Complex (KLC) and a net loss of (\$666,382). The depreciation expense of \$2,298,109 contributed to the net loss. The AADC received \$7.6 million from Federal grants and expended \$12.7 million during the current year. Of that amount, \$3.5 million was used for launch related operations, with the remainder capitalized to the Kodiak Launch Complex. The majority of the KLC additions related to the construction of the Range Safety and Telemetry System (RSTS) and the Maintenance and Storage Facility. The RSTS was completed in July, 2004.



Business-type Activities

The increase in AADC's revenues was expected due to Missile Defense Agency launch contracts secured during fiscal year 2004. The current year expenditures also increased with the additional activity. Depreciation on the KLC continues to be a significant operating expense. The analysis below focuses on the changes in net assets of AADC's business-type activities.

Table 2: Changes in Net Assets

Table 2. Changes in wet Assets						
	Current Year	Prior Year	Change	% Change		
Launch revenue	\$10,229,566	\$378,750	\$9,850,816	2600.9%		
Operating Expenses						
Operating Expenses	1 500 600	1 100 500	440.106	40.00/		
Personal services	1,568,628	1,120,502	448,126	40.0%		
Travel	644,936	471,125	173,811	36.9%		
Contractual services	8,136,968	1,219,418	6,917,550	567.3%		
Supplies	1,931,480	852,471	1,079,009	126.6%		
Depreciation	2,298,109	1,881,959	416,150	22.1%		
Total operating expenses	14,580,121	5,545,475	9,034,646	162.9%		
Excess (deficit)	(4,350,555)	(5,166,725)	816,170	-15.8%		
Interest income	11,579	64,034	(52,455)	-81.9%		
KLC grants recognized	3,672,594	3,249,204	423,390	13.0%		
From component units	-	-	-			
Change in Net Assets	(\$666,382)	(\$1,853,487)	\$1,187,105	-64.0%		



Launch revenues increased materially during the current year, while the related expenses increased marginally in comparison. The factors driving these results include:

- Revenues increased due to new launch contracts in 2004, while there were no launches in 2003. The forecasted launch revenue is expected to continue at or above the current level.
- The activity at the KLC increased due to launch contracts and construction. This primarily contributed to the increase in expenses. Management expects the 2005 expenses to continue in proportion to the launch revenues described above.
- AADC has not traditionally budgeted for depreciation expense, but expects to include an
 estimate in the future. The depreciation expense increased by \$416,150 from 2003 due to
 KLC capital additions and depreciation of infrastructure. Management expects the depreciation
 expense to increase in future years with the completion of the Range Safety and Telemetry
 System and the Maintenance and Storage Facility.
- AADC did not receive any general funds from the State of Alaska during fiscal year 2004.
 Management does not anticipate any future general funds and is fully self-sufficient.

AADC's Budgetary Highlights

The State of Alaska approves AADC's budget annually. In fiscal year 2004, the Board approved a budget prior to the State. Neither the Board of Directors nor management has the authority to modify the budget once approved by the State. However, the budget has historically included provisions granting AADC "receive and expend authority". This allows AADC to contemporaneously receive funding from launch customers and expend funds as necessary to provide services.

The variance between the adopted budget for the year 2004 and the actual results were due to the omission of depreciation in the budget and the effects of recognizing grant revenue.



Capital Asset & Debt Administration

Capital Assets

As of June 30, 2004, the AADC had \$57.8 million invested in various capital assets both in Kodiak and in Anchorage that support its mission to foster aerospace industry (see Table 3 below). This amount represents a net increase (including additions and deductions) of \$7 million, or 13.2 percent, over the prior year.

Table 3: Capital Assets at Year-end (Net of Depreciation)

Kodiak Launch Complex	Current Year	Prior Year	Change	% Change
Infrastructure	\$6,454,465	\$6,794,174	(\$339,709)	-5.0%
Buildings, structures	29,175,283	30,639,436	(1,464,153)	-4.8%
Vehicles & equipment	1,099,469	369,743	729,726	197.4%
Office equipment	180,734	193,076	(12,342)	-6.4%
Construction in progress	20,864,049	13,062,689	7,801,360	59.7%
Total Capital Assets	\$57,774,000	\$51,059,118	\$6,714,882	13.2%

This year's major additions consisted primarily of continued construction of the Range Safety and Telemetry System and the Maintenance and Storage Facility. The overall change in capital assets includes the total additions of \$9 million, net of the depreciation expense of \$2.3 million.

Debt Administration

AADC has no long-term liabilities that require debt administration. AADC has the authority to issue bonds but has not issued any to date.

AADC participates in the State of Alaska Risk Management Pool, which is considerably less than commercial insurance. Other obligations include: accrued leave, compensated absences, vacation pay, and sick leave. More detailed information about AADC's long-term liabilities is presented in Notes A and F to the financial statements.



ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

AADC's Board of Directors considered many factors when setting the fiscal year 2005 budget, such as: completion of the construction in progress, launch fees that will be charged for the business-type activities, and depreciation of the KLC facilities. Amounts budgeted for launch revenue are \$24 million from three expected launches. Management also intends to utilize a National Guard grant for further KLC infrastructure improvements, upgrades, and construction. AADC is still studying the economic impact on the Alaskan economy and the results are not yet available.

CONTACTING AADC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of AADC's finances and to show AADC's accountability for the money it receives. It is intended as a supplement to our audited financial statements. Those statements are available to the public following a written request to: AADC, 4300 B Street, Suite 101, Anchorage, Alaska, 99503, (907) 561-3338.



AADC Board of Directors



Board of Directors meeting, December 16, 2004

Back Row - left to right

Mark Hamilton (Chair), President, University of Alaska Statewide System • Pat Ladner, AADC President & CEO • Representative Dan Ogg, Alaska State House • Dave Woodruff, Vice President, Alaska Fresh Seafoods • Henry D. Penney (Vice-Chair), General Manager/Associate Broker, Penco Properties • Wallace C. Sawyer, NASA (retired) • Bill Bittner, Corporate Counsel, Birch Horton Bittner & Cherot

Front Row - left to right

Jake Lestenkof, Major General (retired), United States Army • Thomas Klinkner, Corporate Counsel, Birch Horton Bittner & Cherot • Roger Smith, Director, Geophysical Institute, University of Alaska, Fairbanks • Ron Acarregui, Kodiak Business Community • Jack C. Eidson, Lockheed Martin Space Operations Company

Not Pictured

Bill Noll, Deputy Commissioner, Dept of Commerce, Community & Economic Development • Senator Gary Wilken, Alaska State Senate

AADC Staff

Pat Ladner
President & CEO

Martha Schoenthal

Vice President of Business Operations

Monica James

Director of Finance and Accounting

Arthur D. Isham

Director of Contracting & Materials Management

Ray Schulte

Director of Health, Safety & Environmental

Jenette Paulson

Program Analyst

Judy Godin

Program Analyst

Nikishka Stewart

Technical Writer

Cherie Anderson

Budget Manager

Nancy Doran

Accounting Technician

Janet Julsen

Accounting Technician

Lana Dahl

Administrative Manager

KLC Staff

Ed Allen

Vice President of Launch Operations

Randy Eisenhauer

KLC Facilities Manager

Todd Leitheiser

Communications Engineer

Geary Cooper

Facility Maintenance Supervisor

Kevin DuBois

Communication & Electrical Supervisor

Gil DeGuzman

Documentation Engineer

Richard McKinney

Systems Support Manager

Joseph M. Smith

Systems Support Manager

Sean F. Kazmar

Security Manager

Mike Morton

Facility Maintenance Technician

Tandy L. Ford-Roberts

Mechanical Technician

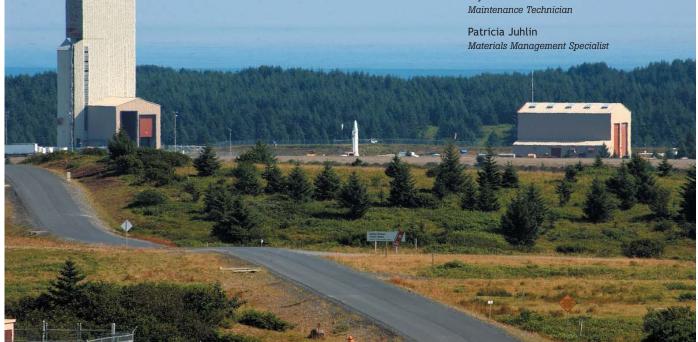
Paul Friel

Electrical Technician

Claude Travis

Maintenance Technician

Clyde Hinson





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